Telecommunications

MOF Inc Fully Exits DNB; Cut Telco Earnings To Reflect Near-term DNB Losses

MARKET WEIGHT
(Maintained)

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Highlights

- CelcomDigi and Maxis have each paid RM327.9m to purchase a third of MOF Inc's shares in DNB and take over its loan. YTL is assumed to have finalised the purchase of the option as well.
- We expect DNB to operate at a loss up to 2028, which should progressively narrow due to the deep cost-cutting measures implemented. We assume losses of RM604m (2026) and RM431m (2027), and cut our net profit forecasts for CelcomDigi and Maxis by 2-7% over the next three years.
- Maintain MARKET WEIGHT. The sector trades at 7.5x EV/EBITDA, +1SD above the mean. Top picks: Axiata and CelcomDigi.

Analysis

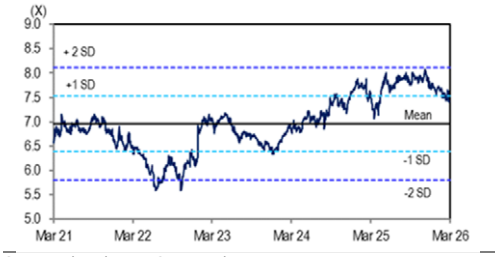
- **CelcomDigi and Maxis acquires MOF Inc's DNB stake.** On Friday, CelcomDigi and Maxis announced on Bursa Malaysia that they have paid RM327.9m individually to acquire the ordinary shares in Digital Nasional (DNB) owned by the Ministry of Finance Inc (MOF). Included in the payment is the assumption of a proportionate share of MOF loan, amounting to RM161.2m, which forms part of the RM327.9m option price.
- **CelcomDigi, Maxis and YTL to hold 33.33% stake each.** Following the completion of the exercise, MOF will cease to be a shareholder in DNB, with the remaining investor shareholders taking up equal portions of MOF Inc's shares. This will lead to the trio owning an effective shareholding of 33.33% in DNB from an existing 19.44% stake each.
- **Earnings impact.** We expect DNB to operate at a loss up to 2028, but losses should gradually narrow from an estimated -RM1.1b in 2025 to -RM172m in 2028. As such, we cut our 2026-28 net profit forecasts for CelcomDigi and Maxis by 2-7% (see overleaf).
- **Cost-cutting measures.** We expect DNB - under the joint management of CelcomDigi, Maxis and YTL - to undertake deep cost-cutting measures across all segments of the business. Under the original budget of DNB, a total of RM1b is to be spent on site rental agreements with EDOTCO, Digi, Celcom, Maxis and U Mobile. Together with the refinancing of its estimated RM3b debt, a lower opex is expected in 2026-27. The overall corporate cost of RM4b in the original budget will also likely be under careful consideration.

Sector Picks

Company	Rec	Target Price (RM)	EV/EBITDA (x)	Div Yield (%)
Axiata	BUY	3.00	6.2	4.4
CelcomDigi	BUY	4.05	8.2	4.7

Source: UOB Kay Hian

Sector's 12-month EV/EBITDA



Source: Bloomberg, UOB Kay Hian

Shareholding Structure In DNB

	Issued Share Capital Held (RM)	Total Shareholder Advance (RM)	Existing Shdg (%)
MOF Inc.	0	0	0
YTL	166,833,334	433,300,976	33.33
CelcomDigi	166,833,334	433,300,976	33.33
Maxis	166,833,334	433,300,976	33.33
Total	500,500,001	1,299,902,928	100.00

Source: CelcomDigi, Maxis, UOB Kay Hian

Peer Comparison

Company	Ticker	Rec	Price 6 Mar 26 (RM)	Target Price (RM)	Market Cap (RMm)	PE 2026F (x)	PE 2027F (x)	EV/EBITDA 2026F (x)	EV/EBITDA 2027F (x)	Dividend Yield 2026F (%)	Dividend Yield 2027F (%)
Axiata Group	AXIATA MK	BUY	2.25	3.00	20,667	47.0	32.1	6.2	5.9	4.4	4.4
CelcomDigi	CDB MK	BUY	3.21	4.05	37,775	21.9	8.6	8.2	8.6	4.7	5.5
Maxis	MAXIS MK	HOLD	3.85	4.20	30,165	18.6	17.7	8.5	8.4	4.7	5.0
Telekom Malaysia	T MK	HOLD	7.49	7.50	28,744	17.8	15.4	6.6	6.0	3.8	4.4
TIME dotCom	TDC MK	HOLD	6.13	6.50	11,333	20.9	19.1	13.2	12.8	5.2	5.5

Source: Bloomberg, UOB Kay Hian

12% Earnings Impact To CelcomDigi And Maxis After Acquisition Of DNB

	---------- DNB's P&L Projections ----------				
	2025F	2026F	2027F	2028F	Assumptions
Revenue	1,040	1,296	1,469	1,728	2026-27 revenue is higher as coverage increases and telcos are required to pay closer to the minimum of RM288m wholesale agreement fee that was originally agreed upon
OPEX	(1,650)	(1,450)	(1,450)	(1,450)	2026-28 assumes 50% reduction in corporate cost (estimated at RM400m annually)
EBITDA	(610)	(154)	19	278	
Depreciation	(300)	(300)	(300)	(300)	Current capex is approximately RM3b, excluding Ericsson equipment of RM4b. We do see the need for capex to rise in 2026 to increase COPA (90% currently) and support densification (due to smaller spectrum allocation now, as UMobile has been given 50% of 5G spectrum)
Interest cost	(180)	(150)	(150)	(150)	Assume debt of RM3b and 6% interest cost, 2026 assumes 5% interest cost as a result of refinancing activities
Pretax loss	(1,090)	(604)	(431)	(172)	

Cut In CelcomDigi and Maxis Net Profit Due to Losses from DNB				
	2026F	2027F	2028F	Comment
CelcomDigi	-6.6%	-5.3%	-1.7%	Synergistic savings to help offset the DNB losses over time.
Maxis	-7.0%	-6.5%	-2.4%	Negative near term impact.

Source: UOB Kay Hian

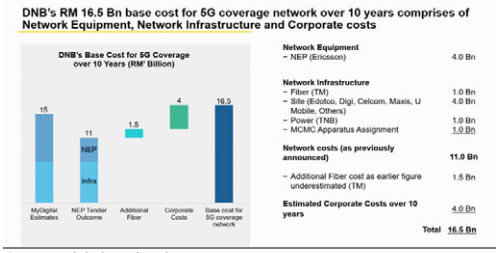
Valuation/Recommendation

- **Maintain MARKET WEIGHT.** We expect the sector to exhibit stable operating parameters in the near term. Good cost discipline and relatively benign capex intensity will drive the sector to deliver an average dividend yield of 4.6%. We maintain our MARKET WEIGHT call on the sector as we believe the exit of MOF Inc from DNB may create some uncertainty among the wireless players and dampen valuation should the matter continue to drag on. The sector currently trades at +1SD 2026F EV/EBITDA of 7.5x. Top picks are Axiata and CelcomDigi.
- **Key risks to our investment thesis** include: a) earnings erosion for fixed-line operators due to stiff competition, b) lower-than-expected synergistic savings from the CelcomDigi merger exercise, and c) economic downturn which will lead to shrinking customer wallets and service revenue for the sector.

Sector Catalyst/Risk

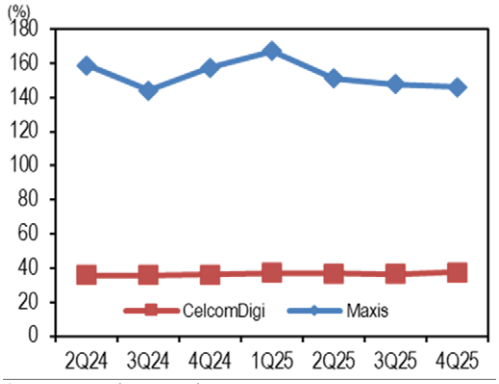
- **TM and DNB remain at an impasse.** DNB has refused TM's bid to terminate its existing 5G wholesale access agreement with DNB (which runs until Oct 32. We expect both parties to go for an arbitrage exercise with Malaysian Communications and Multimedia Commission (MCMC) to resolve the impasse. To recap, TM had announced the termination of its 5G wholesale agreement with DNB, along with the signing of a new 5G arrangement with U Mobile in Feb 26. We understand that the agreement with U Mobile is structured on a pay-per-use basis and may lead to cost savings of RM100m annually. That said, TM is expected to recognise a one-off RM127.3m provision in 2026, relating to unutilised prepaid capacity from its previous agreement with DNB. In all, the disputed termination remains subject to approval from the MCMC.

DNB's RM16.5b Base Cost



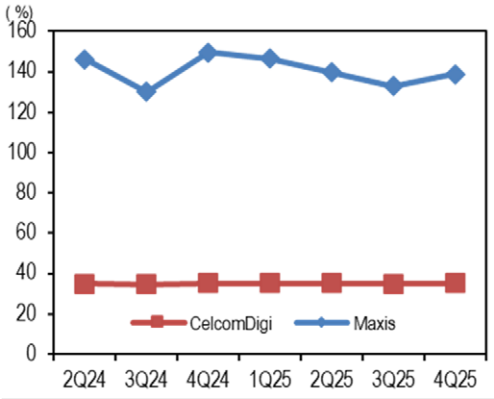
Source: Digital Nasional

Gross Gearing Ratio



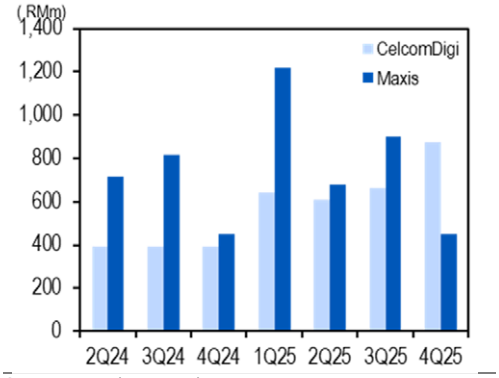
Source: Respective companies

Net Gearing Ratio



Source: Respective companies

Cash Position



Source: Respective companies

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